

## RAISING THE THRESHOLD LEVELS FOR SMEs

### Background

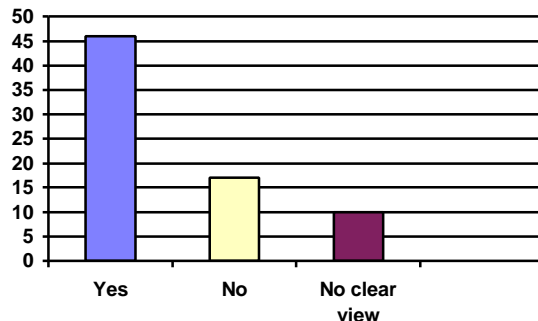
In March 1999, the Department of Trade and Industry published a consultative document on whether the definition of Small and Medium sized Enterprises (SMEs) should be extended so as to allow a greater number of companies to take advantage of the option to file abbreviated accounts. The document proposed increasing the current threshold levels by which SMEs are defined to the maximum possible under European Law.

### Analysis of responses

This paper summarises the 73 responses that were made to the 1999 consultation document. The responses themselves (except those who asked for their comments to remain confidential) may be viewed in the DTI Library and Information Centre, Room LG.B.38, 1 Victoria Street, London SW1H 0ET.

In analysing the responses, a statistical breakdown is given for each question, showing the proportion of respondents who were for and against the various propositions. A summary of views is also provided. We are grateful to those who took the time to respond to the consultation document.

**Question 1: Do you consider that the thresholds should be raised to the maximum level permissible within the Directives, assuming that they are amended as proposed?**

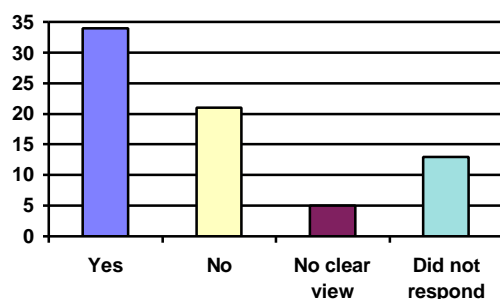


In the main, respondents were in favour of this proposition, with 63% supporting it (of which 8% expressed reservations), 23% opposing and 14% not expressing a clear view. Of those in favour, several qualified their support by arguing that an extension of the catchment area for abbreviated accounts would not be in the public interest. It was nevertheless felt that more small companies should be able to take advantage of certain accounting

concessions in the accounts they prepare for their shareholders, and an increase in the threshold was seen as being key to this. Those firmly in favour (55% of respondents) thought that the higher threshold would bring the UK more into line with other EU Member States and reduce the likelihood of competitive distortions. Added to this, the proposed change would encourage greater use of the Financial Reporting Standard for Small Entities (FRSSE), which was now considered to be well established.

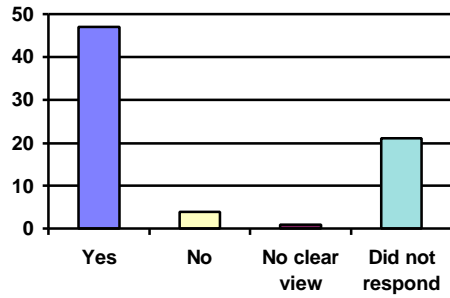
Those who argued against the proposition generally did so on the grounds of protecting the interests of stakeholders other than shareholders. One respondent felt that the balance had shifted too far in the direction of the shareholder. Credit analysis considerations were also raised here.

**Question 2: Do you consider that our proposals strike the right balance between reducing disclosure on business and satisfying the needs of information users?**



Three quarters of the total number of respondents expressed a view on this question, of whom a majority felt that the Department's proposals broadly strike the right balance. Many of those who said "no" did so from the belief that the extension of abbreviated reporting would lead to a reduction in transparency.

**Question 3: Do you consider that the thresholds should remain subject to periodic review?**



There was wide support for this proposition. Respondents were firmly against any move towards the index-linking of thresholds. Similarly, there was broad agreement that continuous changes in line with inflation could prove confusing to businesses.

### **Next steps**

The Department will now consider raising the thresholds by which small and medium sized companies are defined for accounting purposes to the maximum possible under European Law. In so doing, the Department will take full account of the Company Law Review's emerging recommendations on small company accounts.